29678
35080
92 15 2170

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

18492
KE92-2267

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 1992, Commission File No. 0-18577

HEALTH ADVANCEMENT SERVICES, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 86-0441569<br>(I.R.S. Employer Identification No.) |
| 1457 W. Alameda Drive, Suite 10, Tempe, Arizona<br>(Address of principal executive offices) | 85282<br>(Zip Code) |

(602) 966-1599

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subjected to such filing requirements for the past 90 days.

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at April 30, 1992 |
|---|---|
| Common Stock, $.001 Par Value | 6,715,368 |

PROCESSED BY
11-11-H
MAY 19 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

HEALTH ADVANCEMENT SERVICES, INC.

BALANCE SHEET

(Unaudited)

| | March 31, 1992 | June 30, 1991 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash | $2,403,053 | $ 841,632 |
| Accounts receivable | | 4,005 |
| Accounts Receivable - related parties less allowance for doubtful account | 90,020 | 85,800 |
| Inventory | 5,800 | 5,800 |
| Prepaid expense and other assets | 80,620 | 17,912 |
| Notes receivable - related party | 28,759 | 26,545 |
| TOTAL CURRENT ASSETS | 2,608,252 | 981,694 |
| PROPERTY, EQUIPMENT AND SOFTWARE (net of accumulated depreciation) | 144,846 | 65,038 |
| OTHER ASSETS | 8,958 | 14,333 |
| | $2,762,056 | $1,061,065 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 132,133 | $ 183,255 |
| Loans and notes payable current portion | 25,845 | 274,986 |
| Notes payable - related party | 39,220 | 206,720 |
| Due to related parties | | 4,061 |
| TOTAL CURRENT LIABILITIES | 197,198 | 669,022 |
| LONG-TERM DEBT | 59,933 | 7,182 |
| STOCKHOLDER'S EQUITY: | | |
| Common stock - $.001 par value; authorized 20,000,000 shares, issued and outstanding 6,715,368 and 3,715,368 shares | 6,715 | 3,715 |
| Paid-in capital | $5,831,414 | $3,304,864 |
| Accumulated deficit | (3,333,204) | (2,923,718) |
| | 2,504,925 | 384,861 |
| | $2,762,056 | $1,061,065 |

See notes to financial statements.

HEALTH ADVANCEMENT SERVICES, INC.

STATEMENT OF OPERATIONS

(Unaudited)

| | For the three months ended March 31 | | For the nine months ended March 31, | |
|---|---|---|---|---|
| | 1992 | 1991 | 1992 | 1991 |
| REVENUES: | | | | |
| Management fees | $ 216,126 | $ 107,365 | $ 488,272 | $ 281,788 |
| Less deferred advances | (113,713) | (64,751) | (385,859) | (281,788) |
| NET MANAGEMENT FEE | 102,413 | 42,614 | 102,413 | - |
| COST OF SALES | - | - | - | - |
| GROSS PROFIT | 102,413 | 42,614 | 102,413 | - |
| EXPENSES: | | | | |
| Selling, general and administrative | 156,732 | 220,359 | 589,663 | 626,503 |
| Deferred advances | | | | 21,430 |
| Interest expense (income) | (26,381) | (16,582) | (77,764) | (36,701) |
| NET INCOME (LOSS) | $ ( 27,938) | (161,163) | $ (409,486) | (611,232) |
| NET LOSS PER SHARE | $ (.01) | (.06) | $ (.09) | (.22) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 5,582,035 | 2,836,667 | 4,337,590 | 2,836,667 |

See notes to financial statements

HEALTH ADVANCEMENT SERVICES, INC.

STATEMENT OF CASH FLOWS

(Unaudited)

| | For the nine months ended March 31, 1992 | |
|---|---|---|
| | 1992 | 1991 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (409,486) | $ (611,232) |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 33,482 | (25,848) |
| (Increase) Decrease in accounts receivable | 4,005 | - |
| (Increase) in accounts receivable - related parties | (4,220) | - |
| (Increase) Decrease in prepaid expenses and other assets | (62,708) | (16,298) |
| (Increase) in notes receivable - related parties | (2,214) | (14,551) |
| (Decrease) Increase in loans and notes payable - current portion | (420,702) | 26,633 |
| (Decrease) increase in accounts payable and accrued expenses | (51,122) | (29,021) |
| NET CASH (USED) BY OPERATIONS | (912,965) | (618,621) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property, plant and equipment | (107,915) | (2,731) |
| NET CASH (USED) IN INVESTING ACTIVITIES | (107,915) | (2,731) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Decrease in Marketable Securities | - | 243,033 |
| Increase (decrease) in loans and notes payable - long-term portion | 52,751 | (27,466) |
| Increase in issuance of capital stock | 2,529,550 | - |
| NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES | $2,582,301 | 215,567 |
| NET INCREASE (DECREASE) IN CASH | $1,561,421 | $ (405,785) |
| CASH BALANCES - beginning of period | 841,632 | 1,095,854 |
| CASH BALANCES - end of period | $2,403,053 | 690,069 |
| SUPPLEMENTAL INFORMATION: | | |
| Cash paid for the period for interest | $ 41,453 | $ 56,710 |

See notes to financial statements

HEALTH ADVANCEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED MARCH 31, 1992

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with Article 10 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in accordance with generally accepted accounting principles. Reference is made to the Company's Annual Report on Form 10-K for the year ended June 30, 1991.

The financial statements for the periods ended March 31, 1992, and 1991 are unaudited and include all adjustments which, in the opinion of management, are necessary to a fair statement of the results of operations for the periods then ended. All such adjustments are of a normal recurring nature. The results of the Company's operation for any interim period are not necessarily indicative of the results of the Company's operation for a full fiscal year.

2. DESCRIPTION OF COMPANY

The Company and contracted affiliates provide non-medical management and administrative services as part of an employer worksite health evaluation, education and medical referral program designed to reduce employers' overall health care costs through the identification and reduction of health risk factors.

3. SIGNIFICANT ACCOUNTING POLICIES

A. Financial statements are prepared on an accrual basis.

B. Property, equipment and software has been recorded at cost and are depreciated, using the straight-line method, over the estimated useful lives of the assets. Equipment includes assets capitalized pursuant to certain leases qualifying for such accounting treatment.

C. Per share data has been computed based on average number of shares. See Note 5 below.

D. Prior to June 30, 1989, the Company used the direct write off method, the results of which are not materially different from the reserve method in the Company's case. At March 31, 1992 and June 30, 1991, the Company provided an allowance under the reserve method of $1,035,000 and $869,881 respectively.

4. RELATED PARTY TRANSACTIONS

The Company contracted with five professional corporations, owned by a principal of the Company, for the Company to provide management, administrative and marketing services to the professional corporations, which entities employ registered nurses for the Company's personal health advisor system. The agreements provide for payment to the Company of monthly fees of 45% of the professional corporations' gross revenues. The accounting for the contracts was implemented on September 1, 1989. No allocation to cost of sales for administrative and marketing services provided has been made. Pursuant to the terms of the management services contracts, the Company has agreed to advance funds to the professional corporations. The Company has a security interest in the receivables owned by the professional corporations. Such advances carry an interest rate of 2% above the prime rate. The agreements are for the term of twenty years unless terminated earlier in the event of default.

As of March 31, 1992, the Company has advanced approximately $1,175,000 to the professional corporations. These entities are currently operating at a loss and experiencing negative cash flows. As a result, management has elected to reserve approximately $1,085,000 of the receivables from the entities. At the present time, the recoverability of the aforementioned receivables is unknown and will not be determinable until such time as the entities begin profitable operations and positive cash flows.

5. REVERSE STOCK SPLIT

On December 9, 1991, the Board of Directors of the Company declared a one-for-three reverse stock split pursuant to which each three shares of Common Stock of the company, $.001 par value per share, were exchanged for one new share on January 20, 1992. The accompanying financial statements give retroactive recognition of the reverse split.

6. PRIVATE PLACEMENT

During the months of February and March 1992, the Company sold in a private placement 120 Units of the Company's securities at $25,000 per Unit. The Company received net proceeds of $2,529,550. Each Unit consisted of 25,000 shares of Common Stock, and 25,000 redeemable Class C Common Stock Purchase Warrants, each to purchase one share of Common Stock at $2.00 per share, subject to adjustment, for a five-year period from the Closing Date.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Material Changes in Financial Condition

As of March 31, 1992, the Company had working capital of $2,411,054, as compared with working capital of $312,672 at June 30, 1991. The increase in working capital was primarily a result of raising net proceeds of $2,529,550 by issuing securities through a private placement, offset by the Company's loss from operations of $409,486 for the nine months ended March 31, 1992 (the "Fiscal 1992 Period"). See Note 6 to Financial Statements. The Company had net cash used in finance activities of $107,915 during the Fiscal 1992 Period.

Under the Company's Management Services Agreements, the Company advanced approximately $1,175,000 for the funding of the Company's five professional corporations' (the "Affiliated Corporations") operations through March 31, 1992. The Company reserved approximately $870,000 at June 30, 1991 and $1,085,000 at March 31, 1992 of the receivables from the Affiliated Corporations, since they are operating at a loss and experiencing negative cash flows. At the present time, the recoverability of such receivables is unknown and will not be determinable until such time, if ever, as the Affiliated Corporations begin profitable operations and are operating on a positive cash flow basis. Pursuant to the terms of the Management Services Agreements, the Company is receiving 45% of the gross revenues received by the Affiliated Corporations from each client. However, the Company is currently incurring essentially the same costs it previously incurred since it is funding operating losses via advances to the Affiliated Corporations, even though Management expects these advances to eventually be recovered.

In June 1991, the Company converted $437,221 of outstanding indebtedness and sold an additional $90,000 of Common Stock in exchange for the issuance of 2,636,104 shares of Common Stock at the rate of $.20 per share. In July 1991, the Company repaid $433,500 of its loans and notes payable from the proceeds of the aforementioned financing.

In August 1991, the Company entered into a four-year capital lease agreement with General Electric Capital Corporation to lease with a $1 option to purchase, laboratory equipment to bring the Company's laboratory up to current standards. The payments are approximately $97,000 including taxes and interest over the four-year term of the lease.

In September 1991, the Company entered into a three-year noncancelable lease agreement with Alco Capital Resource to lease a copy machine. The payments are approximately $20,000 including taxes and interest over the three-year term of the lease.

In February 1992, the company entered into a three-year, noncancelable capital lease agreement with National Computer Systems to lease scanning equipment. The payments are approximately $13,000 including taxes and interest over the three-year term of the lease.

The Company had no significant capital commitments other than the aforementioned as of March 31, 1992, and no plans for any additional commitments.

During the months of February and March 1992, the Company sold in a private placement 120 Units of the Company's securities at $25,000 per Unit. Each Unit consisted of 25,000 shares of Common Stock, and redeemable Class C Common Stock Purchase Warrants, each to purchase one share of Common Stock at $2.00 per share, subject to adjustment, for a five-year period from the closing date. The amount of cash raised (net of related expenses) was $2,529,550.

Material Changes in Results of Operations

The Three Months Ended March 31, 1992, as Compared With the Three Months Ended March 31, 1991.

The Company's gross management fees for the three months ended March 31, 1992 (the "Fiscal 1992 Quarter") Period increased by $108,761, 101%, from the three months ended March 31, 1991 (the "Fiscal 1991 Quarter"). This increase is the result of the increased gross revenues earned by the Affiliated Corporations and reflects the Company's increased sales effort. A significant portion of the sales increase resulted from a contract with Prudential Insurance Company of America entered into in January 1992.

The Company acts as a management company for the five Affiliated Corporations providing administrative and marketing services and incurs only selling and administrative expenses. The Company, therefore, has no cost of sales as a result of the Company instituting the accounting for the Management Services Agreements. Fiscal 1992 Quarter selling, general and administrative expenses of $156,732 plus deferred advances of $113,713 are $14,665 lower or 5%, as compared with the Fiscal 1991 Quarter. This decrease predominately relates to the Company's decreased advances made to the Affiliated Corporations.

As a result of the foregoing, the Company incurred a net loss of $27,938, as compared with a net loss of $161,163 for the Fiscal 1990 Quarter, a decrease of $133,225 or 83%.

The Nine Months Ended March 31, 1992, as Compared with the Nine Months Ended March 31, 1991.

The Company's gross management fees for the Fiscal 1992 Period increased by $206,484, or 73%, from the nine months ended March 31, 1991 (the "Fiscal 1991 Period"). This increase is the result of the increased gross revenues earned by the Affiliated Corporations and reflects the Company's increased sales effort. A significant portion of the sales increase resulted from the contract with Prudential Insurance Company of America.

Fiscal 1992 Period selling, general and administrative expenses of $589,663 plus deferred advances of $385,859 are $45,801 higher or 5%, as compared with the Fiscal 1991 Period. This increase predominately relates to the higher marketing expenses associated with higher revenues.

As a result of the foregoing, the Company incurred a net loss of $409,486, as compared with a net loss of $611,232 for the Fiscal 1991 Period, a decrease of $201,746, or 33%.

## PART II
## OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A report on Form 8-K was filed by the Company for January 24, 1992, concerning the Company's entering into a contract with Prudential Insurance Company of America, and a report on Form 8-K was filed for February 26, 1992, concerning the Company's completion of private placement.

## SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEALTH ADVANCEMENT SERVICES, INC.

Dated: May 14 , 1992
Tempe, Arizona

By: _____
Frank Connell
Acting President and Chief
Executive Officer

May 14, 1992
New York, New York

By: _____
William C. Kalbnecker
Acting Chief Financial Officer

0539u